

May 9, 2016

Mr. Ken Siong
Technical Director
International Ethics Standards Board for Accountants
529 Fifth Avenue
New York, NY 10017 USA

Dear Mr. Siong:

Re: February 2016 Exposure Draft, *Limited Re-exposure of Proposed Changes to the Code Addressing the Long Association of Personnel with an Audit Client*

I am writing on behalf of the Public Trust Committee (PTC) of the Chartered Professional Accountants of Canada (CPA Canada) in response to your request to comment on the Exposure Draft entitled *Limited Re-exposure of Proposed Changes to the Code Addressing the Long Association of Personnel with an Audit Client* (“the Exposure Draft”). CPA Canada together with its partners Chartered Professional Accountants of Bermuda and the Canadian provincial accounting bodies are currently working towards unification of the Canadian accounting profession under the designation “Chartered Professional Accountant”. The Canadian CPA profession represents a membership of more than 200,000 professional accountants in Canada and Bermuda.

CPA Canada conducts research into current business issues and supports the setting of accounting, auditing and assurance standards for business, not-for-profit organizations and government. It issues guidance on control and governance, publishes professional literature, develops continuing education programs and represents the Canadian CPA profession nationally and internationally. The PTC is responsible for overseeing the regulatory structures and processes across provincial jurisdictions in Canada. The PTC’s goals include achieving consistency between provincial CPA bodies in Canada and ensuring that the processes and standards in Canada meet or exceed the international standards.

Thank you for the opportunity to provide our comments on this Exposure Draft. In general, we support the recommendations made while also noting there is a continuing tension created by such precise and specific rules embedded within a principles based code. Whether trying to address reality or a perception, we acknowledge that it is a very difficult balance to achieve the rules that may be expected by some stakeholders compared to the simpler standards desired by others within a more principles based code. We encourage IESBA to continue its efforts towards ensuring an appropriate balance is achieved between principles and a highly rules based approach to meet expectations.

Our responses to the Specific and General Comments as requested from Respondents to the Exposure Draft are as follows:

Request for Specific Comments

- 1. Do respondents agree that the IESBA’s proposal in paragraphs 290.150A and 290.150B regarding the cooling-off period for the EQCR for audits of PIE’s (i.e., five years with respect to***

listed entities and three years with respect to PIEs other than listed entities) reflects an appropriate balance in the public interest between:

- a) Addressing the need for a robust safeguard to ensure a “fresh look” given the important role of the EQCR on the audit engagement and the EQCR’s familiarity with the audit issues; and*
- b) Having regard to the practical consequences of implementation given the large numbers of small entities defined as PIEs around the world and the generally more limited availability of individuals able to serve in an EQCR role?*

Generally, we are in a position to agree with these proposals. However, in our review of these recommendations, we noted some consistent observations that should be taken into consideration in receiving our overall support for the proposals:

- The application and impact of the rules regarding PIEs is dependent upon how each member body interprets and applies the definition of PIEs. It was noted that jurisdictional differences in legislation even within the same country may result in differing applications and effect based on IESBA’s definition;
- It was difficult to assess the precision of the proposals and, overall, whether the changes recommended were appropriately addressing problems in reality or perception. Definitive empirical evidence identifying the issues and supporting the solutions would be preferred to support such changes;
- EQCRs have a high level of technical expertise which, depending upon the firm and location may be in scarce supply. An increase to the EQCR cooling off period may exacerbate this issue creating significant issues for firms and clients alike.
- Making the rules easier to understand and apply was identified as particularly important for those areas that are inherently more complicated. In the absence of empirical evidence as noted above, the distinguishing of the requirements between listed and non-listed entities was identified as arbitrarily increasing the complexity of the requirements.

With our position noted above to generally agree with these proposals as presented in the Exposure Draft, we do not have an alternative proposal to submit.

2. *Do respondents support the proposal to allow for a reduction in the cooling-off period for EPs and EQCRs on audits of PIEs to three years under the conditions specified in paragraph 290.150D?*

We generally support the proposal to allow for a reduction in the cooling-off period for EPs and EQCRs on audits of PIEs to three years under the conditions specified in paragraph 290.150D.

3. *If so, do respondents agree with the conditions specified in subparagraphs 290.150D (a) and (b)? If not, why not, and what other conditions, if any, should be specified?*

We generally agree with the conditions specified in subparagraphs 290.150D (a) and (b).

4. ***Do respondents agree with the proposed principle “for either (a) four or more years or (b) at least two out of the last three years” to be used in determining whether the longer cooling-off period applies when a partner has served in a combination of roles, including that of EP or EQCR, during the seven-year time-on period (paragraphs 290.150A and 290.150B)?***

We generally agree with the proposed principle described above. However, we noted that making the rules easier to understand and apply was identified as particularly important for those areas that are inherently more complicated and that in the absence of empirical evidence, the distinguishing of the requirements where there had been a combination of roles was identified as arbitrarily increasing the complexity of the requirements.

Request for General Comments

Overall, we anticipate that the proposed changes will be met with some level of concern by Small and Medium Practices (SMPs). Mandatory rotation and longer cooling off periods are cited as being too complex, restrictive or difficult to manage for SMPs. We understand that resulting concerns include remaining competitive in the assurance market, attracting and retaining technical talent and effectively transitioning client engagements and relationships without significant burden or loss. Generally, as typically resourced constrained organizations, we understand that SMPs desire clearer and simpler rules to understand and apply. The *Proposed IESBA Staff Questions & Answers* should be a very helpful tool for SMPs and other firms but we note that it also illustrates very well the complexity of the proposed requirements and the due diligence that will be required in considering and applying the rules in practice.

We have no comments to make regarding *Preparers, Developing Nations and Translations*.

We thank you for the opportunity to comment on this Exposure Draft and commend IESBA for its continuing efforts to consider the requirements addressing the long association of personnel with an audit client.

Yours truly,



Brian Friedrich, FCPA, FCGA
Chair, Exposure Draft Working Group – Public Trust Committee
CPA Canada